

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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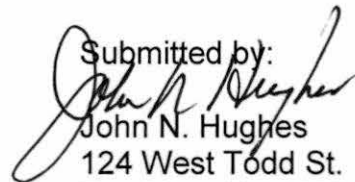
APPLICATION OF KENTUCKY FRONTIER
GAS, LLC FOR AN ADJUSTMENT OF RATES

PUBLIC SERVICE
COMMISSION

CASE NO.
2017-00263

KENTUCKY FRONTIER GAS, LLC's RESPONSE TO
ATTORNEY GENERAL'S SUPPLEMENTAL REQUEST FOR INFORMATION

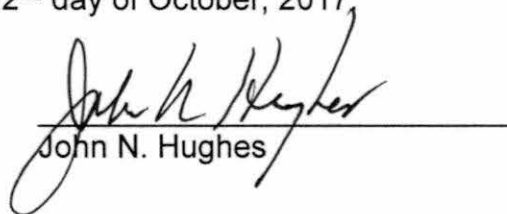
Submitted by:



John N. Hughes
124 West Todd St.
Frankfort, KY 40601
502 227 7270
Attorney for Kentucky Frontier Gas, LLC

Certificate:

I certify that a copy of these responses was mailed to the Attorney General, Capital Building, Frankfort, KY 40601 this the 2nd day of October, 2017.



John N. Hughes

1. Refer to Kentucky Frontier Gas, LLC's ("Frontier") Response to Staff's Second Request, Item 3, and Frontier's Response to the Commission Order from July 28, 2017, Item 2.e.

a. Explain whether Frontier considers the cost to conduct CAD/GIS updates of the recently acquired or previously unmapped areas of its system as a one-time cost or an ongoing expense which is "implied as part of completing any utility project."

Response: Same response as to Staff's concurrent Third Request Item 3:

Response: The CAD-to-GIS or Paper-to-GIS conversions of base maps are a one-time project. The Slone and Krejci invoices for \$8800 submitted with the Second Request are for all CAD and GIS base maps to date, and are included as critical to planning and design for PRP. Frontier expects the remaining base map conversions will cost \$10-15,000 more for outside services charged to PRP, which should be completed in 2018. This total of \$20-25k is a small fraction of about \$350k spent to date on PRP.

Once a system's base maps are created in GIS, Frontier is already adding elements such as valves, regulators, meters and other key points using our own personnel and a precision GPS instrument and collector software. The data collection will continue forever and is not proposed to be part of PRP.

1. Refer to Kentucky Frontier Gas, LLC's ("Frontier") Response to Staff's Second Request, Item 3, and Frontier's Response to the Commission Order from July 28, 2017, Item 2.e.
 - b. Explain whether this cost should be considered due diligence after acquiring other systems regardless of an existing PRP program, and thus not included in a rate request.

Response: One element of due diligence in buying a system is scoping out the state of base maps and documentation. We did that in each acquisition case, and found in every case that they had only paper copies of old maps, mostly not updated in years. Except for Public Gas' parent company, none of these entities had the ability to do mapping of any kind, and even Public's maps were tied up in a corporate struggle. Compared with other deficiencies in these systems such as miles of bare steel pipe, zero employees or equipment and few or no DOT records, poor mapping was a minor issue. We have "gotten by" with the paper maps for everyday operations. But prioritizing PRP replacement projects requires a higher level of detail that GIS helps to organize. Most big utilities have converted to GIS, which cost is buried in the cost of PRPs as Engineering and Admin and Overhead components.

1. Refer to Kentucky Frontier Gas, LLC's ("Frontier") Response to Staff's Second Request, Item 3, and Frontier's Response to the Commission Order from July 28, 2017, Item 2.e.
 - c. Once the entire existing Frontier system is mapped, does Frontier anticipate it will incur periodic charges from CAD/GIS updates in the future? If so, explain what charges it expects, how often such updates will be necessary, any cost estimates, and the manner in which costs will be requested to be recovered.

Response: See 1.a above.

2. Refer to Frontier's Response to the Commission Order from July 28, 2017, Items 2.b., 2.c., and 2.f., Frontier's Response to Staff's Second Request, Item 6, and the Informal Conference on September 18, 2017. Regarding the PRP, Frontier declared its intention to replace bare steel pipes "at about 2.5 miles per year" and that it expected the PRP to last about 10 more years, but also that "[o]ur target is still 12,500 ft per year in PRP." Presently, Frontier states that it has only replaced 1.5 miles per year for the last 3 years.
- a. Does Frontier anticipate that acceleration of the PRP will return the pace of replacement to 12,500 feet per year or will it aim for an even higher replacement rate than this?

Response: We intend to replace about 12,500 ft of pipe per year.

- b. Frontier stated that "much" of the future PRP projects will require contractors, and be on well-traveled roads, necessitating a cost of \$12-15/ft. instead of the \$4/ft. estimate proposed in Case No. 2011-00443. Frontier also stated that replacement may cost \$20-30/ft. if a contractor is required to use a horizontal directional drill.. Provide an estimate of how many of the future PRP projects will incur these higher rates versus the original estimated rate.

Response: Not much of the remaining pipe replacement will be in wide-open spaces where company forces can replace pipe for \$4-5 /ft. There are a few places like that in Belfry that haven't yet been prioritized due to leakage, but much of Belfry's mains are in constrained road ROW in the bottom of a hollow with a busy road that requires flaggers. Most of the bare pipe in Jackson (Public Gas) is in the heart of town under pavement, which will be drilled or in cut pavement. It's impractical to give a more precise percentage.

3. Refer to Frontier's Response to Staff's Second Request for Information, Item 9.

a. State whether Frontier has considered requiring full-time employees to pay a share of their health insurance premium going forward, in accordance with market conditions.

Response: No.

3. Refer to Frontier's Response to Staff's Second Request for Information, Item 9.
 - b. If so, explain Frontier's thinking in whether to require full-time employees to pay some portion of the premium, and include any studies, reports, analyses, or other documentation which it considered.

Response: N/A

3. Refer to Frontier's Response to Staff's Second Request for Information, Item 9.

c. If not, explain Frontier's position on continuing to pay the full amount of premiums, and include any documentation used to support this decision.

Response: When we first approached providing health insurance, we considered having each employee contribute to their health plans. Our local "market conditions" are out of reach for Frontier, with larger regional gas utilities and pipelines paying higher wages and offering better benefits. We aimed for what we could afford.

We expected to use the model from other operations: the company would pay the first \$300 or 400 per employee per month, employees would choose their own plans and pay any extra.

Frontier had mostly younger employees who would be covered completely under that target cost. But 2 older workers over 55 were quoted rates requiring an extra \$6-700 per month simply due to their age. In the worst case, the extra contribution of about \$3.30 per hour *after tax* was 25% of *gross* wages before taxes.

We explored covering the younger employees under a company plan, then asking the older ones to go to the Kynect exchange and apply for the ACA subsidy. We were advised that angle was probably not legal.

We briefly considered requiring an employee contribution on a percentage basis. But the starting workers at \$11 to \$12 per hour are living on the edge, where even a 30% contribution of \$100 would be significant.

At the end of the discussion, our target benefit cost of \$300-400 per employee per month, when averaged over all employees, was enough to cover everyone.

Frontier can cover all of its employees at \$300-400 per month average cost. We offer a modest plan, with \$5,000 deductible and co-pays of \$40 per office visit, \$60 specialist, \$100 urgent care and \$300 emergency. If we require a cost-based contribution, no older employees can afford to have health coverage. A \$75-100 per month contribution would drop off most employees, even the younger/cheaper ones.

After several years of experience and analysis, we believe that any other plan would have the unintended result that most workers would elect not to take health insurance, and the company would be at risk of losing trained & OQed workers due to any medical issue that lingers more than a few days.

4. Refer to Frontier's Response to the Attorney General's First Request, Items 16, 17, and 18, and Frontier's Response to the Commission Order from July 28, 2017, Items 14 and 15.

a. Frontier stated the rate charged by PSI since 2005, noting a similar arrangement with 2 employees of IGS. However, Frontier did not explain how the rate for these services is determined. Provide a detailed explanation of how this rate is set, as well as all studies, analyses, or other documentation which helped Frontier determine the competitiveness of this rate against the current market for these services.

Response: In the response to Staff DR #3, IGS & PSI submitted representative invoices for the same types of services.

Both IGS and PSI charge more than twice as much per hour for identical work for other clients with natural gas pipelines and utility systems.

There was no study or analysis or documentation. IGS and PSI were already set up to provide consulting services to other clients. We agreed on this arrangement and the preferential initial rate for early work in Frontier ca 2005 while operating the ECU system. Frontier needed occasional expertise, the cash flow wasn't substantial, and we agreed to a reduced hourly rate for work to get the company off the ground. The rate hasn't changed since then.

As a simple check, Summit Engineering of Lexington is currently coordinating utility work for Frontier and others on the KyDOT Mountain Parkway project at Salyersville. Frontier submits a sample invoice, where Principals are billed at \$130 per hour, Sr Engineers at \$105, and starting engineers and GIS techs at \$82 and \$72 per hour respectively.

These are just civil engineers doing a "dirt" project. None of them knows much about natural gas or DOT pipeline safety regulations, or the daily operation of gas utilities. For another example, Frontier hires an experienced former gas manager (not an engineer) for onsite OQ training at \$125 per hour. All of these data points emphasize that the Frontier principals with 40+ years of gas pipeline & utility experience could charge well above \$75 per hour.



SUMMIT ENGINEERING INC.

since 1977

INVOICE

Project No.: 3838.001
10-166.00 Salyersville Utility Relocation

Invoice No.: 8

Date: April 29, 2017

Client: Frontier Gas
2963 KY Route 321 North
Prestonsburg, KY 41563

Description: Magoffin County
NH 0061 060
Mountain Parkway (KY9009)
Item No.: 10-166.01
Invoice No. 8

This invoice is for Engineering and inspection services of utility line relocation on Mountain Parkway KYTC project. The man-hour breakdown for the work is included in this attached invoice. If there are any questions please contact Derek Motsch at 859-264-9860 ext. 104.

Amount Due: \$15,201.30

Payment To: Summit Engineering, Inc.
131 Summit Square Place
Pikeville, KY 41501

131 Summit Drive, Pikeville, Kentucky 41501 Phone 606-432-1447

Minor Engineering Civil Engineering Environmental
Architecture Surveying GIS Services

3838.001 KTC 10-166 Relocation
 Personnel Billing Breakdown

Invoice Period 3/27/2017 - 4/29/17

| | | Total Hours | Prev Hours | Current Hours | Rate | Total |
|--------------------------------|-----------------|----------------|---------------|------------------|--------------|---------------------|
| Principal | | | | | | |
| | Kevin Howard | 50.5 | 50.5 | 0 | \$ 130.00 | \$ - |
| | Mike Hill | 5 | 0 | 5 | \$ 130.00 | \$ 650.00 |
| Senior Project Engineer | | | | | | |
| | Derek Motsch | 560 | 544 | 16 | \$ 105.00 | \$ 1,680.00 |
| Engineer 1 | | | | | | |
| | Matt Jolly | 8 | 8 | 0 | \$ 82.00 | \$ - |
| | Peter Guth | 454.5 | 436 | 18.5 | \$ 82.00 | \$ 1,517.00 |
| Technician | | | | | | |
| GIS Tech | Cleve Justice | 450 | 450 | 0 | \$ 72.00 | \$ - |
| tech 3 | Alberto Gomez | 0 | 0 | 0 | \$ 72.00 | \$ - |
| tech 1 | Marsha Ratliff | 2 | 2 | 0 | \$ 52.00 | \$ - |
| tech 1 | Gratho Williams | 1140.5 | 934.5 | 206 | \$ 52.00 | \$ 10,712.00 |
| Clerical | | | | | | |
| | Devra Pomeroy | 22.5 | 22.5 | 0 | \$ 45.00 | \$ - |
| | Elaine Cartmell | | | 0 | \$ 45.00 | \$ - |
| Mileage | | | | | | |
| | | 6852 | 5781.5 | 1070.5 | \$ 0.60 | \$ 642.30 |
| | | | | | TOTAL | \$ 15,201.30 |

4. Refer to Frontier's Response to the Attorney General's First Request, Items 16, 17, and 18, and Frontier's Response to the Commission Order from July 28, 2017, Items 14 and 15.

b. State and provide a breakdown of PSI's fully distributed cost for providing consulting services to Frontier.

Response: "Cost" has no impact on consulting charges to a client. Like legal fees, consulting fees are based on professional qualifications and market factors, not overhead or other itemized expenses. The main fact here is that PSI charges Frontier a far lower rate than PSI charges all other clients unrelated to Frontier, for identical work.

Kentucky Frontier Gas
PSC Case No. 2017-00263
Response to AG Supplemental Request

Witness: Shute

4. Refer to Frontier's Response to the Attorney General's First Request, Items 16, 17, and 18, and Frontier's Response to the Commission Order from July 28, 2017, Items 14 and 15.

c. State and provide a breakdown of IGS's fully distributed cost for providing consulting services to Frontier.

Response: Same as 4.c.

4. Refer to Frontier's Response to the Attorney General's First Request, Items 16, 17, and 18, and Frontier's Response to the Commission Order from July 28, 2017, Items 14 and 15.

d. Frontier described the increased workload of Steven Shute through PSI and Bob Oxford through IGS since Frontier's inception, but did not state whether Frontier ever solicited bids for such services. Explain whether Frontier ever solicited any bids for engineering or management consulting services from firms other than IGS or PSI, and if not explain why not.

Response: See Item 4.a. above.

From Response to AG DR1 Item 16.f:

Frontier has not solicited for assistance from other firms or consultants for the work done by Mr. Shute. First, this isn't regular work. Second, there are very few consultants that specialize in all aspects of the natural gas utility business: there are utility engineers out there, and metering specialists, and pressure regulator designers, and corrosion control technicians, and rate making analysts, and strategic business consultants and CPAs and M&A specialists, etc. But none of them can do more than 1 or 2 of these tasks, few have ever worked for a tiny gas utility, and none has been part of a utility startup venture.

As Mr. Shute says, "I don't know anybody that does what I do."

5. Refer to Frontier's Response to the Commission Order from July 28, 2017, Item 32 and attachments. The Managing Member meetings from 2015 and 2016 provide that a majority of the members voted for the "Continuance of Steve Shute as operating manager with discretion to provide for day to day operating decisions."

a. Explain how the management or policies of Frontier are set. Does Steve Shute make these decisions as operating manager, or are they set by the Managing Members?

Response: Steven Shute is the majority owner and is more involved in day-to-day decisions. He consults often with Bob Oxford and Dennis Horner, especially on matters of policy.

b. Confirm that Steve Shute owns or controls 100% of Pipeline Solutions Inc.

Response: Steven Shute was the founder in 1991 of Pipeline Solutions and is sole owner.

6. Refer to Frontier's Response to the Attorney General's First Data Request, Item 1.b.
Explain Frontier's statement that "[t]he present \$10 just isn't enough."

Response: The present \$10 per month charge raises about \$50,000 in the summer months, which doesn't cover payroll at about \$58,000 every 4 weeks.

The volume-related charges must cover the \$8,000 payroll shortfall, about \$50,000 in loan payments and \$60,000 for all other operating expenses (trucks, insurance, office expense etc). Over the past two summers, sales volume in June-July-August has averaged about 7000 MCF and \$25,000 per month.

This is far short of break-even. Gas utilities operate on a feast-and-famine cycle, but the size and length of the famine, coupled with funding all construction for the year in the same period, is a perennial burden on Frontier that can be alleviated with a higher monthly charge and lower MCF charges.

7. Refer to Frontier's Response to the Attorney General's First Data Request, Item 2.a.
Provide support for the statement that "there are no analogous non-municipal gas utilities in Kentucky."

Response: This response was in the context of filing an ARF or General Rate case.

There is no other gas utility in Frontier's demographic of a non-governmental gas utility with 2000 to 10,000 meters.

The Big 4 of Louisville G&E, Atmos, Columbia and Delta have over 600,000 customers with annual revenues way over the \$5 million threshold for a GR case.

There are a number of small municipal or government-related gas utilities such as Pikeville, Paintsville, Prestonsburg and West Liberty in our area. These utilities are not rate-regulated by PSC and can finance projects with their bonding capacity.

There are a bunch of small producer-related utilities that serve customers with their own production (Martin Gas, several Kinzer entities), but gas distribution is far from their primary focus.

All other privately-held companies are quite smaller, like B&H and Johnson County (which is not owned by the county). These utilities have little in common with Frontier, with far fewer customers, fully depreciated rate bases, no long-term debt and substantial differences in the other ratemaking parameters.

8. Refer to Frontier's Response to the Attorney General's First Data Request, Item 4. How does Frontier rationalize its answer to Item 4 with the Commission's April 22, 2014 Order in Case No. 2013-00148, specifically the directive on pg. 35?

Response: This case was filed by Atmos Energy which has about 175,000 customers and 2016 revenue of almost \$200 million.

The April 2014 order for this Case has this statement on page 35:

With this Order, the Commission puts all parties to future rate proceedings on notice that we cannot give full consideration to a COSS that does not show separately each of the typical individual COSS steps of functionalization, classification, and allocation.

From our response to AG DR1 Item 4:

The "standard" practice apparently references the factors generally used in a COSS required of much larger utilities. While some of those factors are explained in this ARF application, they are not applied to the same extent as in a more formal COSS. The rationale for using the proposed methodology is to provide support for the rate increase. There is no requirement that Frontier must prepare any COSS, or that any COSS proposed by Frontier be validated in relation to the "standard COSS criteria."

By its size and revenue, Atmos is required to file General Rate cases in the traditional form. Frontier is a tiny fraction of the size of Atmos and qualifies for the ARF method.

The context of this section of the order clearly apply to COS studies in General Rate cases for large utilities. See 807 KAR 5:001(16)(v) : "(v) If the utility provides gas, electric, sewage, or water utility service and has annual gross revenues greater than \$5,000,000 in the division for which a rate adjustment is sought, a cost of service study based on a methodology generally accepted within the industry and based on current and reliable data from a single time period". There is no similar requirement in the Alternative Rate Filing regulation - 807 KAR 5:076

9. Refer to Frontier's Response to the Attorney General's First Data Request, Item 5.

a. For rate design purposes, provide data studies and any other documentation which shows that leak surveys, pressure regulator maintenance, and utility locates are all customer related work.

Response: The context of the discussion in the ARF Rate Design section was on which expenses to consider as fixed costs that could be attributed to Monthly Charges. In the context of the AG DR1 Item 5 response, these tasks are not considered to be work directly related to customers, but have to be done even with zero customers, and regardless of gas volume. Such costs are fixed and should be covered by Monthly Charges or the Customer component.

9. Refer to Frontier's Response to the Attorney General's First Data Request, Item 5.
 - b. Explain why the turn on and turn off are not billed separately through a tariffed rate.

Response: Some turn-ons and turn-offs are billed through a tariffed rate, depending on the specific circumstances of Connect, Reconnect or Transfer.

10. Refer to Frontier's Response to the Attorney General's First Data Request, Item 6. Frontier stated "[Other way the savings will be reflected in future cases." Fully explain this statement.

Response: Any future rate case will be based on operating costs at the time. Any savings due to scale of operations will be reflected in those costs.

11. Refer to Frontier's Response to the Attorney General's First Data Request, Item 11. Did Frontier receive permission from the Commission to take out these loans?

Response: No. These are simple, single-vehicle auto loans which Frontier has disclosed in every annual report (2016 loan detail page submitted).

3001900 Kentucky Frontier Gas, LLC 01/01/2016 - 12/31/2016

Long-Term Debt (221,222,223 and 224) (Ref Page: 256)

| Class Series and Name (a) | Nominal Date of Issue (b) | Date of Maturity (c) | Outstanding (d) | Interest Rate in % (e) |
|---|-----------------------------------|----------------------|-----------------|------------------------|
| Acct 221 Bonds | | | | |
| (221) | | | | |
| Total (221) | | | | |
| Acct 222 Reacquired Bonds | | | | |
| (222) | | | | |
| Total (222) | | | | |
| Acct 223 Advances from Associated Companies | | | | |
| (223) | Industrial Gas Services | 1/10/2008 | \$27,603.00 | 0.0000 |
| (223) | Auxier Road Gas Company | 12/31/2015 | \$198,287.00 | 0.0000 |
| Total (223) | | | \$225,890.00 | |
| Acct 224 Other Long Term Debt | | | | |
| (224) | SBA Loan-Community Trust Bank | 12/30/2008 | 12/30/2018 | \$433,297.00 3.7500 |
| (224) | USDA Loan #1-Community Trust Bank | 4/13/2010 | 4/13/2025 | \$1,031,407.00 6.0000 |
| (224) | USDA Loan #2-Community Trust Bank | 4/13/2010 | 4/13/2025 | \$115,479.00 6.0000 |
| (224) | CTB Loan- SBA #2 | 7/31/2012 | 7/21/2027 | \$184,783.00 5.0000 |
| (224) | CTB Loan- SBA #3 | 12/4/2015 | 12/4/2030 | \$1,433,918.00 5.2500 |
| (224) | 2015 Chev Silverado Loan CTBI | 1/31/2015 | 3/1/2020 | \$22,092.00 2.9900 |
| (224) | 2015 F350 Loan CTBI | 2/2/2015 | 2/2/2020 | \$22,245.00 2.9900 |
| (224) | 2015 Tacoma- CTBI | 4/22/2015 | 4/22/2020 | \$14,207.00 2.9900 |
| (224) | 2016 Tacoma SR 4X4 Loan CTBI | 1/14/2016 | 1/14/2021 | \$17,695.00 2.9900 |
| (224) | 2017 Toyota Tacoma 4x4 Access | 12/6/2016 | 12/6/2021 | \$27,323.00 2.9900 |
| Total (224) | | | \$3,302,446.00 | |